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ABSTRACT

The Office of Inspector General (OIG), mandated to provide audit, investigation, fraud detection and prevention, and some security services to the U.S. Department of Education, presents its third semi-annual report in this document. OIG audit activities are recounted in the first section, which details audit accomplishments and highlights audits of elementary and secondary education programs, vocational education and rehabilitation, financial assistance to higher education students, and Department contracts and grants. The second section presents data on OIG investigation activities, cases referred to the U.S. attorney, updates on previously reported investigations, and matters referred to Education Department officials for administrative action. Section 3 describes fraud control activities, including operation of a complaint center, an awareness project for Department employees, and the Department's Committee on Fraud, Waste and Mismanagement. In the fourth section the document reports on the OIG's review of proposed legislation and regulations, participation in projects under the President's Council on Integrity and Efficiency, staffing, goals for fiscal year 1982, issuance of subpoenas, and processing of General Accounting Office reports for the Department. Appendices list OIG audits for the reporting period. (Author/RW)

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ED218779

U.S. DEPARTMENT OF EDUCATION

Semi-Annual Report to Congress

April 1, 1981 - September 30, 1981 **No. 3**

(Submitted pursuant to Public Law 95-452)

During this semi-annual reporting period, the Office of Inspector General worked to improve the operational efficiency of the Department of Education. These intensified measures to detect and prevent fraud, waste and mismanagement have resulted in the following benefits.

- o Costs questioned/disallowed increased from $30 million in the previous reporting period to about $79 million in the current period. . . . . p. 2
- o Costs sustained on closed audits increased from $8 million in the previous period to about $28 million. . . . . p. 43
- o The Secretary of Education and the Inspector General formed a Department-level Committee on Fraud, Waste and Mismanagement. . . . . p. 62
- o Cases accepted for prosecution by U.S. Attorneys increased from 10 in the previous period to 43. . . . . p. 49
- o Indictments resulting from OIG investigations increased from 5 to 41. . . p. 49
- o The Secretary of Education included the elimination of fraud, waste, and abuse as a major goal of the Department. . p. 72

Office of Inspector General

EA 014 807

SEMI-ANNUAL REPORT

April 1, 1981 - September 30, 1981

Office of Inspector General

U.S. Department of Education

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UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

OFFICE OF INSPECTOR GENERAL

Honorable T. H. Bell
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending September 30, 1981. Highlights of our activities and accomplishments are provided in the Executive Summary which begins on page i.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional Committees and Subcommittees within 30 days.

We appreciate your cooperation and support in our continuing efforts to make the Department's programs more efficient and economical and to prevent and detect fraud and abuse.

Sincerely,

James B. Thomas, Jr.
Inspector General

EXECUTIVE SUMMARY

This is the third semi-annual report issued by the Department of Education (ED), Office of Inspector General (OIG). The report, prepared pursuant to the provisions of the Inspector General Act of 1978 (P.L. 95-452), summarizes the activities and accomplishments of the OIG during the period April 1, 1981 through September 30, 1981. Reporting requirements mandated by the Act are indexed to this report in Appendix 1. Highlights of our activities and accomplishments for this reporting period follow:

- OIG issued 2,707 reports on ED operations, grantees and contractors. These reports questioned or recommended disallowances of $78.7 million of the $6.3 billion audited. Federally performed audits cited two major areas of deficiencies in administration of ED programs by State and local education agencies:

  (1) Failure to provide comparable services in Title I (Elementary and Secondary Education Act) schools.

  (2) Improper use of lapsed funds to cover current year projects and expenditures (Vocational Education).

  The 2,318 audits performed by Independent Public Accountants primarily involved Student Financial Assistance programs and continue to show frequent deficiencies in accounting, administration and regulatory compliance. These audits questioned or disallowed costs totaling $13.9 million.

- The Department intensified efforts to close unresolved audits. A total of 1,270 audit reports were closed during the period, 209 more than were closed in the previous period. Program managers sustained and marked for recovery approximately $28 million of the $66.2 million in costs questioned and disallowed. A total of $2.3 million was returned by State agencies on costs questioned during audits in process. Additionally, other audit activity resulted in potential cost avoidances of about $2.3 million.

- The Department was unable to close all unresolved audits over six months old by September 30, as required by the Supplemental Appropriations and Rescission Act of 1980. As of September 30, there remained 1,804 unresolved audits over six months old of which 542 involve questioned costs of $17.4 million. However, the Department has initiated a major project to reduce the backlog.

- Sixteen internal audits have been initiated and seven completed. These reviews identified significant opportunities for cost avoidance or recurring savings in Departmental programs and activities. The OIG is also participating in five Government-wide audit and investigative projects initiated by the President's Council on Integrity and Efficiency.

- During the period, the OIG opened 108 investigative cases and closed 83, and obtained a total of 41 indictments and 16 convictions. U.S. Attorneys accepted 43 cases for prosecution this period, compared to ten in the prior six month reporting period. Fines and restitutions resulting from our investigative efforts amounted to about $56,000 in this period.

- In the course of reviewing proposed legislation and regulations, the OIG issued a seven-day report to the Secretary and Congress, advising that proposed amendments to the Federally Insured Student Loan program could jeopardize ED's efforts to save or recover about $250 million in student loans and increase opportunities for fraud and abuse. The proposed amendments to the Federally Insured Student Loan program have been withdrawn.

Some detailed examples of completed audits and investigations follow:

- Expenditures of $21.4 million in Title I funds in three States were questioned because the Title I schools were not receiving comparable services. The auditors recommended that the $21.4 million be refunded to ED.

- Audits of Vocational Education programs in three States disclosed that lapsed funds were improperly used to fund current year projects or expenditures. Auditors recommended that the States involved refund about $11 million to ED.

- An audit of a State Guarantee Agency disclosed that the Department paid about $346,000 in excess interest because of differing interest computation methods allowed by current regulations. Projections of the audit results nationwide indicated that the Department may have paid as much as $4 million in excess interest over a four year period. The auditors recommended that the Department revise its regulations governing methods used to compute interest as soon as possible.

- A review of cash management practices by postsecondary schools in one region disclosed that about $11.6 million in excess Federal cash was being maintained by schools administering Student Financial Assistance programs. The auditors estimated that this excessive cash retention cost the Federal government $1.3 million in interest in this region alone in fiscal year 1980. Projecting these results nationwide suggests that as much as $11.4 million in excess interest costs may be involved. The auditors recommended that ED institute a number of actions to better control cash held by schools to administer these assistance programs.

- The owner of a proprietary school was the subject of a seven count indictment by a Federal grand jury. The indictment charged embezzlement and mail fraud. The defendant's school obtained and spent approximately $16,000 in College Work Study funds for a non-existent work study program at the school.

- An individual was sentenced to one year incarceration (nine months suspended) and three years probation by a Federal District Court judge after pleading guilty to a four count indictment. The subject had fraudulently obtained $5,000 in Guaranteed Student Loans by using fictitious names, social security numbers, and birth dates.

- A Federal grand jury returned a one count indictment against a former school student loan officer for forging a Guaranteed Student Loan check and personally using the proceeds. The subject will probably be tried in October 1981.

- The president of a proprietary school pled guilty to one count of false statements and one count of aiding and abetting as part of a scheme to defraud the Pell Grant program. The criminal counts related to 134 grants and approximately $19,000 diverted to the defendant's personal use. The defendant was sentenced to six months incarceration, 2½ years probation, and restitution of the misapplied funds.

- A Federal grand jury returned indictments on 27 persons as a result of a joint investigation by OIG special agents, Postal inspectors, and Immigration and Naturalization Service investigators. Those indicted were non-resident aliens who falsified applications for Pell Grants and Guaranteed Student Loans by claiming U.S. citizenship.

SECTION I

AUDIT ACTIVITIES

A. INTRODUCTION

Our audit activities during this period continued to show improved results. Marked increases were noted in costs questioned and sustained and intensified efforts were made to perform a greater number of internal management type audits. Several of these audits were completed in this period and provided management with specific recommendations aimed at enhancing the efficiency and economy in operating various Departmental programs and activities. The results of our audits are also showing some discernable patterns of common problems and weaknesses in the administration of various Education programs. This information will be used for planning and allocating resources for future audits.

The Department is still having problems in resolving open audits but is continuing its efforts to reverse prior trends. We were especially pleased to see a dramatic decline in the dollar value of unresolved audit reports. This decline represents a concerted effort on the part of the Department to meet the mandate set forth by Congress in the Supplemental Appropriations and Rescission Act of 1980.

The following sections include information on audit reports issued, costs audited, costs disallowed and questioned, and highlights of significant findings and recommendations. They also include data on the status of unresolved audits, and

updates on the status of significant recommendations included in the previous semi-annual reports. Audit reports completed by Federal auditors during the period are listed in Appendix 2.

B. ACCOMPLISHMENTS

For this six month period the OIG issued 2,707 audit reports involving audited costs of about $6.3 billion. Total costs questioned and disallowed amounted to about $78.7 million, and represent Federal funds which were not spent in accordance with legal requirements or the terms of grant or contract provisions. Costs sustained by program managers on audits closed this period amounted to $27.6 million or 41.7 percent of costs questioned or disallowed in these reports. In addition, $2.3 million was returned to ED by State agencies on audits in process. Other audit activity has also resulted in potential cost avoidance of $2.3 million. The reports also included recommendations directed toward compliance with Federal grant requirements, and management improvements needed to ensure that ED programs and activities are being efficiently and economically administered.

Although the number of reports issued during this period increased only slightly, costs disallowed and questioned more than doubled, compared to the previous reporting period, rising from about $30 million to $78.7 million. We were also able to complete a much larger number of ED-OIG initiated audits during this period. Our output increased from 37 reports issued in the prior reporting period to 115 issued during this reporting period.

With respect to costs disallowed and questioned, we again found, as in the last reporting period, that a large percentage of costs questioned and disallowed related to programs within the Office of Elementary and Secondary Education. Almost all of the disallowed and questioned costs in these programs concerned the failure of State and local educational entities to provide comparable services to Title I and Non-Title I schools. Similarly, audits in the Vocational Education programs showed that a recurring deficiency related to the improper use of lapsed funds. Our analyses of reports prepared by Independent Public Accountants continue to show a high ratio of deficiencies in the Student Financial Assistance programs. Most of the deficiencies related to the need for improvements by institutions in administering the Student Financial Assistance programs and in complying with accounting and other grant and loan requirements.

1. Source of Audits

The 2,707 audit reports issued this period represent both those audits completed by our own staff and those processed by us which were completed by other auditors. Audits processed by us include audits completed by other Federal auditors, State and other non-Federal auditors and Independent Public Accountants. A schedule showing the sources of all reports issued and costs questioned and disallowed by Federal or non-Federal audit groups follows:

SOURCE OF AUDITS ISSUED

Source of Audits	Number of Reports	Costs Audited	Costs Questioned/ Disallowed	Average Cost Questioned/ Disallowed Per Audit
Federal Auditors				
ED-OIG	115	$1,727,777,000	$26,808,500	$233,117
Others	123	1,417,073,000	37,209,500	302,516
State and Other Non-Federal Auditors	151	297,267,000	785,800	5,203
Independent Public Accountants	2,318	2,838,488,000	13,907,200	5,999
TOTALS	2,707	$6,280,605,000	$78,711,000	$ 29,076

Most of the audit reports issued during the period were performed by Independent Public Accountants and involved financial and compliance reviews of Student Financial Assistance programs. These audits are required by Department regulations and represent 86 percent of the audit reports issued in the last six months. A detailed discussion and analysis of the types of deficiencies disclosed in these reports are presented on page 5. Actual dollar recoveries are discussed in the audit resolution section of this report on page 43.

2. Costs Disallowed and Questioned by Program Area

Reports issued during this period include financial and compliance audits of grantee operations, economy and efficiency reviews of Departmental programs and operations,

and contract audits. A schedule of audits issued and costs questioned and disallowed by major Departmental operating components follows.

SCHEDULE OF COSTS AUDITED
AND COSTS DISALLOWED/QUESTIONED
BY OPERATING COMPONENT

Operating Component	No. of Reports	Costs Audited	Costs Disallowed/ Questioned	% of Cost Disallowed/ Questioned
Office of Postsecondary Education	2,353	$4,165,324,000	$13,650,300	0.3
Office of Procurement and Assistance Management	283	1,400,337,000	3,374,300	0.2
Office of Special Education and Rehabilitative Services	24	159,196,000	8,962,200	5.6
Office of Educational Research and Improvement	17	14,259,000	2,305,100	16.2
Office of Vocational and Adult Education	16	344,019,000	27,318,800	7.9
Office of Elementary and Secondary Education	14	197,470,000	23,100,300	11.7
TOTALS	2,707	$6,280,605,000	$78,711,000	1.3

3. Audits Performed by Independent Public Accountants

Audits by Independent Public Accountants are performed in accordance with guidelines established by the OIG which include standards established by the Comptroller General. These reports, the preponderance of which related to Student Financial Assistance programs, are reviewed, approved, and accepted on behalf of the Department by our Regional Audit

Offices prior to release to ensure they meet OIG reporting standards. Quality assurance reviews are also performed by OIG auditors on the actual work performed by the public accountants. These reviews have been performed on approximately three percent of all audits by public accountants to ensure that the audit work meets auditing standards established by the Comptroller General. During this period, we received and processed 2,318 reports prepared by Independent Public Accountants, which cited a total of 6,797 deficiencies in the Student Financial Assistance programs alone. The following schedule shows the types of deficiencies by major category.

DEFICIENCIES BY CATEGORY

Type of Deficiencies	Number of Deficiencies	Percent
Administrative	1,906	28
Accounting	1,768	26
Student Records	1,097	16
Regulatory Violations	882	13
Program Award Processing	802	12
Abuse and Mismanagement	342	5
TOTALS	6,797	100

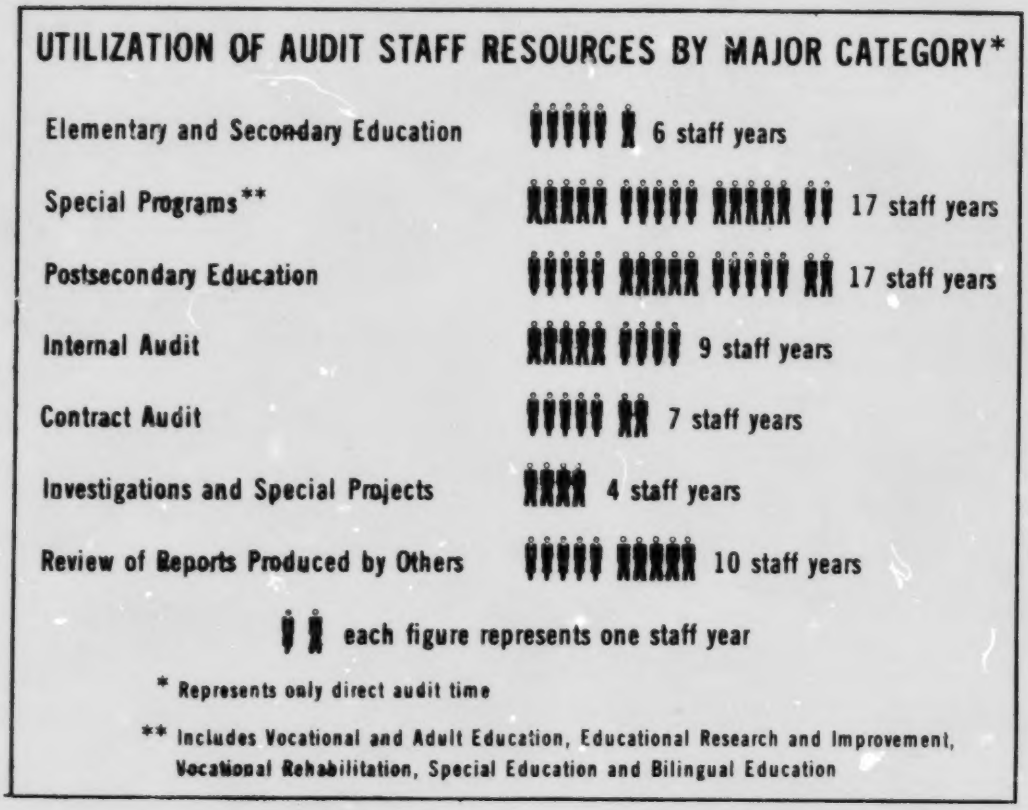
As noted, administrative deficiencies consituted the most frequently cited problem in these audit reports. This category includes deficiencies such as: lack of written operating procedures, lack of written refund policies and/or regulatory non-compliance and other miscellaneous problems.

Accounting deficiencies represented the second largest category of deficiencies reported by independent accountants and includes items such as: cash balances on hand in excess of need, inadequate accounting controls, audit disagrees with the institutions' financial reports, etc.

Within the broad classification of accounting deficiencies, excess cash balances on hand were reported in 337 reports. Because of the high incidence of this particular deficiency and the current emphasis on improving cash management activities, ED-OIG performed an audit to determine the extent of this problem. The results of our review indicated that nationwide about $102 million in excess cash may have been held by institutions in 1980. Details on the audit are provided on page 25.

4. Allocation of Audit Resources

Availability of audit resources requires that we carefully plan our audit activities to ensure proper balance in audit coverage among the myriad programs and activities within the Department. The following chart depicts the use of direct audit time during this period by major program categories.


UTILIZATION OF AUDIT STAFF RESOURCES BY MAJOR CATEGORY*
Elementary and Secondary Education
6 staff years
Special Programs**
17 staff years
Postsecondary Education
17 staff years
Internal Audit
9 staff years
Contract Audit
7 staff years
Investigations and Special Projects
4 staff years
Review of Reports Produced by Others
10 staff years
each figure represents one staff year
* Represents only direct audit time
** Includes Vocational and Adult Education, Educational Research and Improvement, Vocational Rehabilitation, Special Education and Bilingual Education

One of the heaviest uses of resources (17 staff years) was attributable to conducting audits classified under the Special Programs area. These audits included reviews of activities and programs related to Vocational and Adult Education, Educational Research and Improvement, Vocational Rehabilitation, Special Education and Bilingual Education.

One reason for the heavy concentration of resources in this area is that Public Law 94-482 provides that Vocational Education audits be conducted in all 50 states, the District

of Columbia and six territories by the end of fiscal year 1982.

To date a total of 19 audits have been completed leaving some 38 still to be accomplished. This is well behind the original time schedule established by the former Department of Health, Education and Welfare audit agency for completion of these audits. The original plan called for completion of at least 10 audits per year beginning October 1, 1977.

Our audit plans for fiscal year 1982 allocates resources to conduct audits for most of the remaining States. We also plan to arrange for part of the required audit coverage through implementation of OMB Circular A-102, Attachment P. Additionally, we plan to use a revised audit guide to focus attention on those areas of the Vocational Education program where most problems have existed in the past. Despite these efforts, we are not very optimistic that we can satisfy the mandated audit requirements by September 30, 1982.

We have also expended considerable time in conduct of audits in the Postsecondary area and in reviews of internal operations. This allocation of our resources has provided a good return on our investment. In addition to the recoveries of costs questioned and disallowed, audits in these areas have also provided meaningful recommendations for improvements and cost avoidance. Detailed examples of some of these audits are discussed in the section entitled "Highlights of Significant Audits" of the report.

5. Audit Output and Productivity Trends

As previously stated, our audit activities continue to show improvements. This is reflected in the following table which compares major audit output and productivity data for the three semi-annual reports issued to date.

COMPARATIVE SCHEDULE OF
OUTPUT/PRODUCTIVITY MEASURES
(Dollars in Millions)

Output/ Productivity Measures	For the Six Month Periods Ending: 9/30/80	3/31/81	9/30/81	Cumulative Total
Reports Issued	1,718	2,761	2,707	7,186
Costs Audited	*	*	$6,300	$6,300
Costs Questioned	*	$ 30	$ 78.7	$ 108.7
Costs Sustained on Audits Closed	$ 11.4	$ 7.6	$ 27.6	$ 46.6
Cash Recoveries	$ 1.8	$ 2.6	$ 2.8	$ 7.2
Potential Cost Avoidance	*	$ 2.0	$ 2.3	$ 4.3
Administrative Fines Imposed	*	*	$ 3.0	$ 3.0

*Data not available.

C. HIGHLIGHTS OF SIGNIFICANT AUDITS

During this six month period, audit reports isued by us covered a wide range of Departmental programs and activities

involving thousands of diverse, geographically dispersed entities. These entities include State and local governments, educational institutions, profit and non-profit organizations and Departmental headquarters and regional offices. Some of the more significant audit findings disclosed by these reviews are highlighted below.

1. Elementary and Secondary Education

Title I of the Elementary and Secondary Education Act (as amended) authorizes Federal financial assistance for planning and operating special education programs for educationally deprived children in areas with high concentrations of children from low income families. The Department spends about $4 billion annually to provide Title I services to approximately six million public school students. Title I funds are used to supplement other programs and are not intended to supplant State and local funding. States are required to ensure that Title I project areas receive services provided with State and local funds that are at least comparable to the services being provided in schools serving attendance areas not designated as Title I project areas.

During the period April 1, 1981 to September 30, 1981, we issued 14 audit reports on programs administered under Title I of the Elementary and Secondary Education Act. The audit reports disallowed or questioned costs totalling about $23.1 million. As illustrated in three of the four audits discussed below, almost all of the amount questioned/disallowed was

attributable to non-compliance by Local Education Agencies with the comparability requirements of the Title I legislation. The audits disclosed that many Title I schools were not receiving comparable services and that improved procedures were needed by State Education Agencies to ensure compliance with regulatory requirements and use of Title I funds for the purposes intended.

a. $21.4 Million Expended For Title I Projects at Non-Comparable Schools

(1) An audit in one State disclosed that $11.2 million in Title I funds was expended by a Local Education Agency at non-comparable schools for various periods. The auditors found that the Local Education Agency submitted comparability reports to the State Education Agency which showed that many Title I project area schools were not receiving comparable services. Along with these reports the Local Education Agency submitted planned staff allocations and a revised comparability report showing that it had achieved comparability. The State Education Agency accepted this data at face value. The auditors concluded that had the State Education Agency properly monitored the Local Education Agency implementation of its planned staff allocations, it would have found that many Title I project schools were not, in fact, receiving comparable services.

The auditors recommended that the State refund $11.2 million to ED and develop a system and procedures to periodically monitor the Local Education Agencies' compliance with comparability requirements and take proper actions outlined in the Title I regulations when a local agency is not in compliance.

Department officials sustained the findings and recommendations and requested the State to refund $7.5 million to ED. The Department was barred by the statute of limitations from seeking recovery of the additional $3.7 million.

(2) In an audit of another State, the auditors found that $1.8 million in Title I funds was expended at 22 non-comparable schools during a two year period, contrary to Federal regulations which stipulate that the State Education Agency must determine comparability. Specifically the auditors noted that the State Education Agency did not adequately review the Local Education Agency's comparability reports to determine the adequacy of methods used in making computations and/or the accuracy of the computations. The State Education Agency also accepted staff assignment data without the required assignment dates.

The auditors recommended that the State repay $1.8 million to ED, and adhere to Federal regulations in

obtaining and verifying required comparability statistics. Department officials sustained the findings and recommendations and requested that the State refund $1.8 million to ED.

(3) In still another report, the auditors found that one State expended about $8.4 million at 281 Title I project schools in which services provided by State funds were not comparable to services provided by the State in non-comparable schools. Specificially the auditors noted that the State did not comply with Title I regulations and that it had taken no actions to rectify the lack of comparability at schools clearly identified in comparability reports as non-comparable. The auditors concluded that comparability reports contained significant errors, and that corrections were needed before an accurate determination of amounts expended at non-comparable schools could be made.

The auditors recommended that the State correct its comparability report, compute the amount of funds expended at non-comparable schools and repay the amount computed to ED.

The Department and State officials have reached a tentative settlement agreement which is currently pending approval by the Department of Justice.

b. Federal Share of Administrative Cost Overcharges Totalled About $320,000

An audit in one State disclosed that the State Department of Education received revenues from Service Center users in excess of actual costs, and improperly billed Federally supported programs for unallowable equipment costs. Specifically, the auditors found that the State:

- Charged Service Center users based in part on estimated expenses which exceeded the costs actually incurred; and
- Fully expended equipment purchases in the year of acquisition.

The auditors determined that the Federal share of the Service Center's overcharges amounted to about $155,000 for excess user charges and $165,000 for excess allowable depreciation expenses.

The auditors recommended that the State repay the $320,000 and establish procedures to adjust charges to the Center's users. The auditors also recommended that the State utilize depreciation or use allowances to determine the expenses for equipment with an acquisition cost of $300 or more and a useful life of more than one year.

Departmental officials are currently resolving the findings and recommendations contained in this report.

2. Vocational Education

The Vocational Education program is administered at the Federal level by the Office of Vocational and Adult Education. The overall goal of the program is to prepare persons at the secondary and postsecondary level for employment in occupations not requiring a four year college degree. Federal grants are provided to States to:

- Extend, improve and, where necessary, maintain programs of vocational education;
- Develop new programs of vocational education;
- Overcome sex discrimination and sex stereotyping in vocational education programs; and
- Provide part-time employment for youths who need the earnings from such employment to continue their vocational training on a full-time basis.

The intent of the program is that all persons have access to vocational training which is suited to their needs and the requirements of available job opportunities. Particular emphasis is placed on meeting the needs of the disadvantaged and handicapped through special programs and services that will enable the participants to succeed in regular vocational education programs. The fiscal year 1981 appropriation for vocational education was about $862 million, including $518 million for basic grants to States.

During the last six months, the OIG issued 16 reports on programs administered by the Office of Vocational and Adult

Education. Total costs questioned in these reports amounted to approximately $27.3 million. Of the 16 reports, 10 were issued on the Vocational Education program and included questioned costs of approximately $25.7 million.

a. $11 Million in Lapsed Federal Funds Improperly Used

One of the major problems disclosed in some of our recent reports is that States are unable to fully utilize funds allocated to them by the Department for vocational education within the prescribed time period and that these unused funds have not always been returned. Federal funding is made available to the States for a 27 month period which includes a carryover period of one fiscal year. The States are required to return to the Federal government any carryover funds not obligated by the end of the carryover period by the State and its subgrantees. Examples of some of the more significant reports highlighting this problem follow.

(1) An audit in one State disclosed that $3.7 million of Federal funds remained unobligated and unexpended by September 30, 1979, the end of the carryover period. This occurred because the final financial status reports were not received from the Local Education Agencies until after the carryover period had ended. Consequently, the State was unaware that all the 1978 funds had not been obligated within the required time period.

To avoid returning unused funds, the State made inappropriate adjusting entries in the accounting records to charge fiscal year 1979 expenditures totalling $3.7 million to fiscal year 1978.

The auditors recommended that the State discontinue the practice of making adjusting accounting entries to show use of program funds which have lapsed and that the State refund $3.7 million of fiscal year 1978 funds to the Department.

Program officials have yet to make a final determination concerning these recommendations. However, it is their view that the vocational education funds in this State have not been misspent or misused. At issue is the apparent unwritten policy which has allowed States to make it common practice to adjust accounting records after the close of the carryover period in order to utilize lapsed funds. This matter has been referred to the Office of General Counsel.

(2) In another audit, we found that a State claimed $6.2 million in Federal funds for 1977 and 1978 which had not been expended or obligated during the initial and carryover periods allowed. The dollars overclaimed in this instance were classified in the accounting records as unallocated, which according to the State's accounting system, meant that the funds had not been obligated.

The auditors recommended that the State refund the $6.2 million which had not been properly obligated or expended by the end of the carryover period. Although program officials have not yet made a final determination concerning this recommendation, they are working closely with State officials to resolve the findings in this report.

(3) In a third State, an audit disclosed that Federal funds should be returned to the Department because the funds were obligated subsequent to the statutory time limitation, or retained by State or Local Education Agencies even though they could not be legally obligated or expended within the prescribed time limitation. This occurred because the State Education Agency had not effectively managed Federal funds to assure they were obligated by the Local Education Agencies within the allowed time.

The auditors recommended that $1.1 million be refunded and that the State Education Agency strengthen its monitoring practices to identify unused funds. Program officials are working with State officials to resolve these findings.

b. Ineffective Program Administration Leads to Disallowances and Questioned Costs of $13.4 Million

One of the reports discussed above disclosed significant deficiencies in procedures and practices employed by the State Education Agency in its administration of the program. The deficiencies noted resulted in disallowed and questioned costs of about $13.4 million and related primarily to the lack of adequate controls to assure proper funding decisions, and lack of effective procedures and practices in awarding and monitoring subgrants. Among other things, the report pointed out that:

- Awards of $4.2 million were made to Local Education Agencies to support the construction of regional vocational education schools without the State Education Agency obtaining annual applications that addressed criteria on which to select construction projects for funding. Such criteria include: (1) current and projected manpower needs and job opportunities, particularly new and emerging manpower needs, and (2) relative ability of the Local Education Agency to provide resources necessary to meet their vocational education needs.

- Federal funds of $2.9 million were awarded to Local Education Agencies without subjecting the project applications to the required reviews and approvals; and

- State officials made awards to Local Education Agencies to procure the services of individuals outside of these Agencies, enabling the States to by-pass compliance requirements for employing personnel and consultants. This practice resulted in recommended refunds of $1.7 million and additional questioned costs of $3.7 million.

The report recommended that the State refund $5.8 million to the Federal government, provide appropriate documentation or support for the $7.6 million in questioned costs and take

needed actions to improve monitoring and administration of the program.

Program officials agreed with some of the findings presented in the report, and will be providing comments on the remaining findings in the near future.

3. Vocational Rehabilitation

Funding for vocational rehabilitation programs is provided by formula and is designed to assist physically and mentally handicapped individuals in becoming gainfully employed. The program is administered at the Federal level by the Office of Special Education and Rehabilitative Services. Federal funds distributed under these grants may be used to support up to 80 percent of expenditures made by State Vocational Rehabilitation Agencies under approved State plans. The Department provides about $983 million annually in support of Vocational Rehabilitation programs.

During the last six months, the OIG issued 24 reports on programs administered by the Office of Special Education and Rehabilitative Services. Total costs questioned or disallowed amounted to about $9 million. Of the 24 reports, nine were issued on the Vocational Rehabilitation program and included questioned or disallowed costs of about $7.2 million.

a. Unallowable Costs of $6 Million Claimed for Federal Financial Participation

An audit of a general Vocational Rehabilitation program in one State was an outgrowth of an audit of a Vocational Rehabilitation program for the blind conducted in the same State.

The audit was restricted to the allowability, allocability and reasonableness of specific costs totalling about $7.2 million of which the Federal government's share was about $6 million.

Among other things, the auditors reported: improper use of fiscal year 1978 funds for fiscal year 1979 grant projects; invalid obligations of unused funds from a prior year; unallowable direct costs and rental costs, and the write-off of non-expendable equipment costs in lieu of depreciation without obtaining prior approval.

The auditors recommended refunds and/or credits of about $6 million. The Office of Special Education and Rehabilitative Services and the State Agency generally concurred with the audit findings and have agreed to refunds or adjustments of about $5.5 million.

b. Unallowable Expenditures of $414,000 Claimed

In a recently issued audit report we found that a State Department of Education reimbursed a Rehabilitation Center for unallowable expenditures totalling about $414,000. The

auditors determined that the Rehabilitation Center was improperly reimbursed for land and building costs for a facility which was not approved and did not benefit the clients and for unallowable travel and promotion costs. Other unallowable expenditures included items such as automobile and home furnishing expenses, and advances to individuals and organizations, none of which benefited the clients.

The auditors recommended that the State agency refund the $414,000 and establish proper monitoring procedures. State officials indicated that they have taken action to establish adequate management and fiscal control of the Center. In addition, the State has reimbursed ED for the costs questioned.

4. Student Financial Assistance

Student Financial Assistance programs are administered by the Office of Postsecondary Education and provide financial aid to individuals to obtain education or training beyond the high school level. Financial aid provided to students in fiscal year 1981 represented about $6.4 billion in grants, direct loans, interest on loans, guarantee loans and earnings through work study programs.

During the six month period covered by this report, the OIG issued 2,353 reports on Postsecondary Education, most of which concerned administration of Student Financial Assistance programs. Total costs questioned/disallowed in these reports amounted to approximately $13.7 million.

a. Different Interest Computation Methods Resulted in Excessive Interest Payments

Excessive interest payments were made by ED because regulations permitted interest to be charged either on the average quarterly or on the average daily balance on loan principal balances outstanding. During our audit of a State guarantee agency, we found that lenders, who used the average quarterly method, sold loans to the Student Loan Marketing Association, which used the average daily method during the first half of a quarter. As a result, aggregate interest payments from ED to lenders and the Student Loan Marketing Association during the quarter amounted to as much as 150 percent of the amount that would have been paid had both parties used the same computation method.

We estimated that ED paid about $346,000 in excess interest during the period April 1977 to September 1980 because of the different interest computation methods used by the lenders and the Student Loan Marketing Association in this State. We estimated that as much as $4 million in excess payments may have been made nationwide from 1975 to 1979 because of the different computation methods used.

We recommended that ED revise the interest billing methods as soon as possible to avoid the excessive interest payments. Program management officials agreed with our finding and recommendation and promised to take prompt corrective action.

b. Poor Cash Management Practices in Student Financial Aid Programs Resulted in Unnecessary Interest Cost of $1.3 Million

This ongoing audit disclosed that postsecondary schools in one Region had excessive Federal cash on hand. Using statistical sampling, we estimated that schools in this Region in 1980 had $11.6 million in excess cash, resulting in $1.3 million in unnecessary interest costs to the Federal government. If the results of this audit reflect a nationwide condition, excess cash for these programs may have totalled an estimated $102 million and unnecessary interest costs would have been increased to $11.4 million in 1980. In addition, schools also maintained excessive balances in their National Direct Student Loan revolving funds which were financed through monthly cash advances rather than the accepted letter-of-credit method. Furthermore, our review of previously disclosed cash management problems showed that ED program officials had relied primarily on voluntary corrective action by the schools, which generally was not adequate.

We recommended that ED management require that schools report excess cash balances immediately and return any excess cash. As an alternative, we also recommended that ED consider legislation to allow reuse of excess National Direct Student Loan funds returned to the Federal government, and to require schools to pay interest on excess cash. We also recommended that the Department deny advance funding to those schools that persist in abusing Federal cash advances.

Department officials generally agreed with our findings and are considering our recommendations and other alternative actions to deal with the problems.

c. Abuse of the Student Financial Assistance Program by Two Proprietary Colleges Results in Termination and Proposed Fines of $3 Million

An ongoing audit of two proprietary technical colleges disclosed that both schools had seriously abused the Student Financial Assistance programs and the students intended to be helped. Generally the audits noted that misrepresentations in recruiting and enrolling students were used by the colleges to maximize enrollment and the owners' personal financial benefit. As a result, about $4.8 million of Student Financial Assistance funds were wasted, and little, if any, benefits were provided to the students. Specifically, the audit disclosed that:

- College owners and their agents used deceptive recruitment methods to lure students into the Registered Medical Assistant course when employment was restrictive or non-existent;
- College owners misrepresented the colleges' dropout rate to avoid overview by ED officials;
- College owners effected an unauthorized tuition increase which was prohibited by Federal regulations;
- The colleges utilized inadequate testing procedures to admit to the Medical Assistant program students who had little or no potential to complete the training;
- The colleges charged the Pell Grant program for students who dropped out before attending class;

- The colleges did not verify student eligibility for Student Financial Assistance.

As a result of our audit and related OIG investigation, the Department initiated action to terminate the eligibility of the colleges to participate in the Student Financial Assistance programs and to fine the two schools a total of $3 million under authority of the 1980 Education Amendments Act (Public Law 96-374).

d. Erroneous Interest of $2 Million Paid by ED

A State guarantee agency failed to remove from its billing records all of the Guaranteed Student Loan program loans its lending institutions sold to the Student Loan Marketing Association. As a result, the agency, on behalf of its lenders, billed ED for about $2 million of interest for periods after the loans were sold.

The auditors recommended that the agency expedite efforts to remove from its billing records loans sold to the Student Loan Marketing Association and submit to the Regional Office of Student Financial Assistance, its calculation of excess interest paid by ED. We also recommmended that the agency implement procedures and controls to ensure the timely removal from its billing records of all loans sold by its lenders to the Association.

The State agency generally agreed with our recommendations and made billing adjustments of about $1.2 million. The agency will also work closely with the Office of Student Financial Assistance to resolve the additional billing adjustments needed, and to implement a system to prevent recurrence of this problem.

e. ED Overpaid State Agency $2 Million for Losses on Defaults of Guaranteed Student Loans

A recent audit disclosed that a State agency inaccurately computed its reimbursement claims on defaulted loans for 1978 and 1979 by about $2 million. The computation, based on the relationship between the net principal of loans outstanding and default claims paid by ED, was in error because the agency's computer did not provide all the data necessary for the computation.

Although overpayments to the State agency were initially noted by the Office of Student Financial Assistance in January and February 1980, and acknowledged by the State agency, we found that the State agency had not taken action on this matter during our audit in November 1980.

At our request, the State agency began calculating the amount of overpayments and the Department has already received a check from the agency for $1 million as preliminary repayment pending determination of the actual liability involved.

We recommended that the agency complete and submit its calculation of overpayments as soon as possible. We also recommended that the State agency implement measures to ensure that all data needed to calculate the amount of its claims be included in the calculations.

The State agency and ED officials agreed with our findings and are proceeding to implement our recommendations.

5. Internal Audits

Internal audits of the Department's programs, operations and management continue to be an OIG priority. During this period, the OIG initiated 16 internal audits and issued seven final reports on the internal operations of the Department. Results of three internal audit reports issued are described below.

a. Inadequate Controls Over Check Receipts Result in Potential for Abuse and Unnecessary Interest Costs of About $250,000

The Department is responsible for administering Student Financial Assistance programs with total outlays of over $6.4 billion per year. The Department, through the Office of Student Financial Assistance, manages several programs for students enrolled at institutions of higher education. In operating these programs, the headquarters office receives millions of dollars in grant and loan repayments, insurance premiums, and payment adjustments. During fiscal year 1980,

the Office reported receiving checks amounting to over $50 million under five of its programs.

Our review of the controls in use over remittances showed that they were inadequate to ensure that all funds were properly accounted for, adequately safeguarded, and deposited promptly. As a result of these weaknesses, the potential for fraud, waste, loss or misuse of Government funds was significantly increased. Additionally, there were no assurances that all monies received were deposited or that program records were accurate. Furthermore, we estimate that check processing delays alone cost the Government about $250,000 in unnecessary interest during fiscal year 1980.

Control problems and deposit delays were primarily attributable to organization problems and the lack of clear lines of authority and responsibility. The report recommended that an integrated organization plan be developed to provide adequate internal controls over receiving, processing and depositing of checks.

The Deputy Under Secretary for Management and the Acting Assistant Secretary for Student Financial Assistance concurred with our recommendations and advised us that they would work together to develop a plan to accomplish the needed changes.

b. Inadequate Controls Over Interest Payments

The Guaranteed Student Loan program encourages private lenders to make loan capital available to students attending postsecondary educational institutions. To accomplish this, the Department subsidizes such loans by paying a fixed rate of interest to lenders while students are in school and during a grace period following graduation or withdrawal. In addition, it pays a quarterly allowance based on current Treasury bill rates on all outstanding loans to compensate lenders for the difference in the fixed interest rate chargeable to students and current interest rates. For fiscal year 1981, interest payments on student loans are estimated at $2 billion. Payments are typically made quarterly based on billings submitted by lenders.

Our report showed that the Department has not given sufficient management attention to establishing adequate procedures and support systems to assure that payments are accurate, timely and properly recorded. During fiscal year 1980, lenders voluntarily returned over $22 million of erroneously issued checks and interest payments. In addition, lender reviews performed by the Office of Student Financial Assistance identified over $4.2 million of inaccurate interest payments. These erroneous payments and overpayments occurred because of divided organizational responsibilities, deficient accounting records and practices, inadequate computer support services, lack of qualified personnel and inadequate supervision of the payment process.

The Acting Assistant Secretary for Management/Controller and the Acting Deputy Assistant Secretary for Student Financial Assistance generally agreed with the findings and recommendations and indicated that corrective actions were being taken.

The Secretary, in a September 22, 1981 memorandum to the Deputy Under Secretary for Management and the Assistant Secretary for Postsecondary Education, called for aggressive action to correct the deficiencies noted in the report.

c. Elimination of Excess Telephones and Reduction in Commercial Long Distance Telephone Calls Could Result in Annual Savings of About $315,000

Federal Property Management Regulations indicate that agencies should limit the quantity of telephones to less than one per employee. Our review of the Department's telephone services showed that it averaged 1.4 telephones per employee and that one of its organizational units averaged as many as 1.7. We estimated that the Department could reduce its annual telephone expense by $265,000 if the quantity of telephones were reduced to one per employee and that further savings of $190 per year could be achieved for every additional telephone eliminated.

We also found that the Department was not using the Federal Telecommunications System to the maximum extent possible. Generally, long distance calls placed on the Federal system cost half as much as those placed on the commercial system.

We concluded therefore that the Department could reduce its annual telephone expense by $50,000 if it maximized its use of the Federal system.

We recommended that the Department conduct a comprehensive survey of its existing telephone service to identify and eliminate specific telephones which exceed the quantity specified in the regulations. We also recommended that specific controls be instituted to reduce the number of long distance commercial calls.

Department officials agreed with our findings and recommendations and have initiated corrective actions.

6. Contracts and Discretionary Grants

ED annually awards approximately 12,000 discretionary grants and 1,300 contracts totaling about $1.5 billion. The awards are made to State and local governments, educational institutions and profit and non-profit organizations for a variety of educational services. The Office of Procurement and Assistance Management has responsibility for awarding discretionary grants and contracts. The OIG provides a variety of contract and grant audit services to the Department, including audits of cost proposals and contract closing statements.

During this reporting period, OIG issued 283 contract and grant audit reports that questioned costs amounting to about $3.4 million and identified additional potential cost

avoidance of about $2.0 million. These audits continue to be effective in identifying potential fraud, waste and abuse in the Department's procurement activities.

a. Pre-Award Audits

Reports on audits of cost proposals are advisory in nature. However, they are extremely important because they serve to assist the Department in final negotiations with contractors by identifying areas for potential cost savings. The following are examples of cost avoidance or savings resulting from ED-OIG's pre-award audits.

(1) A contractor submitted a proposal of $485,000 to provide training workshops and follow-up technical assistance to handicapped individuals in the Midwest. Our audit disclosed that the proposed costs of $485,000 were overstated by $112,000. Additionally, we could not express an opinion on approximately $34,000 of the proposed costs. In addition, we were unable to express an opinion on the adequacy of the contractor's accounting system to properly account for future costs chargeable to the contract because adequate records were not available at the time of our review.

The contractor also grossly misrepresented the status of the corporation at the time of the audit. One of the two corporate owners withdrew from the corporation on July 1, 1981 and the employees were terminated in mid-August

1981. The audit disclosed gross negligence by the contractor in estimating charges included in the contract pricing proposal. In addition, the contractor may have received payments on prior ED contracts which were based on fictitious or unsupported claims for fringe benefits and labor overhead rates.

We recommended that the Department not enter into negotiations with, or award a contract to the contractor. The Department agreed with our recommendation not to award a contract to the contractor. These actions resulted in a cost avoidance of $485,000. We also referred this matter to our Office of Investigations for appropriate action.

(2) A contractor submitted a proposal of about $274,000 for a project entitled "Stories Waiting To Be Told." The purpose of the project was to research the ethnic cultures of Italian and Polish Americans who have been negatively stereotyped, and to prepare a motion picture based on the research. ED-OIG raised several concerns regarding the advisability of awarding the contract and recommended the Department consider these concerns prior to award. After consideration of the issues raised by the OIG, the Department decided against the award of the contract resulting in a cost avoidance of $274,000.

(3) A contractor submitted a three year proposal of about $2.1 million to the Department to help defray the cost of furnishing recorded text books to blind elementary, secondary and postsecondary students. The audit disclosed that the contractor's unit price for each text book was overstated by $3, $4 and $5 for each of the three respective years.

The Department negotiated a fixed unit price contract with indefinite quantity at the lower unit price resulting in the Department purchasing more text books for the total contract prices because of the lower cost per textbook. The proposed costs for the 2nd and 3rd years were not awarded as options because textbook pricing details could not be projected with any degree of certainty.

b. Closeout Audits

ED-OIG performs or processes closeout audits of physically completed contracts to assure that costs claimed and reimbursed under the contracts were reasonable, allocable and allowable under Federal procurement regulations and contract requirements. These audits continue to disclose instances of contractors claiming and being reimbursed for unallowable costs. Examples of some of these audits follow.

(1) We issued a report on a closeout audit of a $1 million Education Department contract for a national

evaluation survey of projects funded under Part A of the Indian Education Act and an evaluation of the impact of the program. The auditors found that $104,000 of the cost claimed by the contractor was ineligible and another $432,000 was not adequately supported by the accounting records.

The Department's procurement office is currently negotiating settlement with the contractor and has declined to negotiate or award further contracts to the contractor.

(2) An audit of one State University's administration of $5.8 million in Education Department grants and contracts disclosed that accounting and internal control procedures needed improvement. Specifically, the audit disclosed that the University:

- Used grant income for unallowable purposes;
- Improperly transferred costs between Federal grants and contracts to eliminate cost overruns and to use unexpended grant funds; and
- Did not provide adequate documentation to support expenditures for travel, consulting, salaries and wages, subsequent period costs and other charges.

The auditors recommended a financial recovery of $802,000. They also recommended that the University make certain changes in its accounting policies and strengthen internal controls.

D. AUDIT RESOLUTION

The 1980 Supplemental Appropriations and Rescission Act requires timely resolution of audit reports. This requirement is set forth in Section 305 of the Act and provides that:

> "All unresolved audits currently pending within departments and agencies, for which appropriations are made under the Act, shall be resolved not later than September 30, 1981. Any new audits, involving questioned costs, arising after the enactment of this Act shall be resolved within six months."

The Department has not been able to close all unresolved audits over six months old in accordance with the requirements of the Act. As of September 30, 1981 there were still 1,804 unresolved audits over six months old, 542 of which involved questioned and/or disallowed costs of $17.4 million.

As reported in our prior semi-annual report, the Inspector General has worked closely with the Secretary and Departmental officials to address the audit resolution problem. These efforts are beginning to show positive results. For example, during this reporting period the Department closed 1,270 reports as opposed to 1,061 in the prior period, an increase of about 20 percent. More importantly, the dollar value of questioned and disallowed costs in unresolved audits over six months old declined significantly in this period, decreasing from about $38 million to $17 million. While gains in these two areas have been encouraging, continued emphasis and efforts are needed by the Department to make meaningful

progress in resolving and closing out the remaining outstanding audit reports over six months old. In this regard, the Department initiated a major effort to train regional personnel to assist in closing the 1800 unresolved audit reports over six months old during the first quarter of fiscal year 1982. We have been advised that this initiative has already resulted in closure of about 550 of these reports. Details on audit resolution activity are discussed in the following section.

1. Audit Resolution Activity

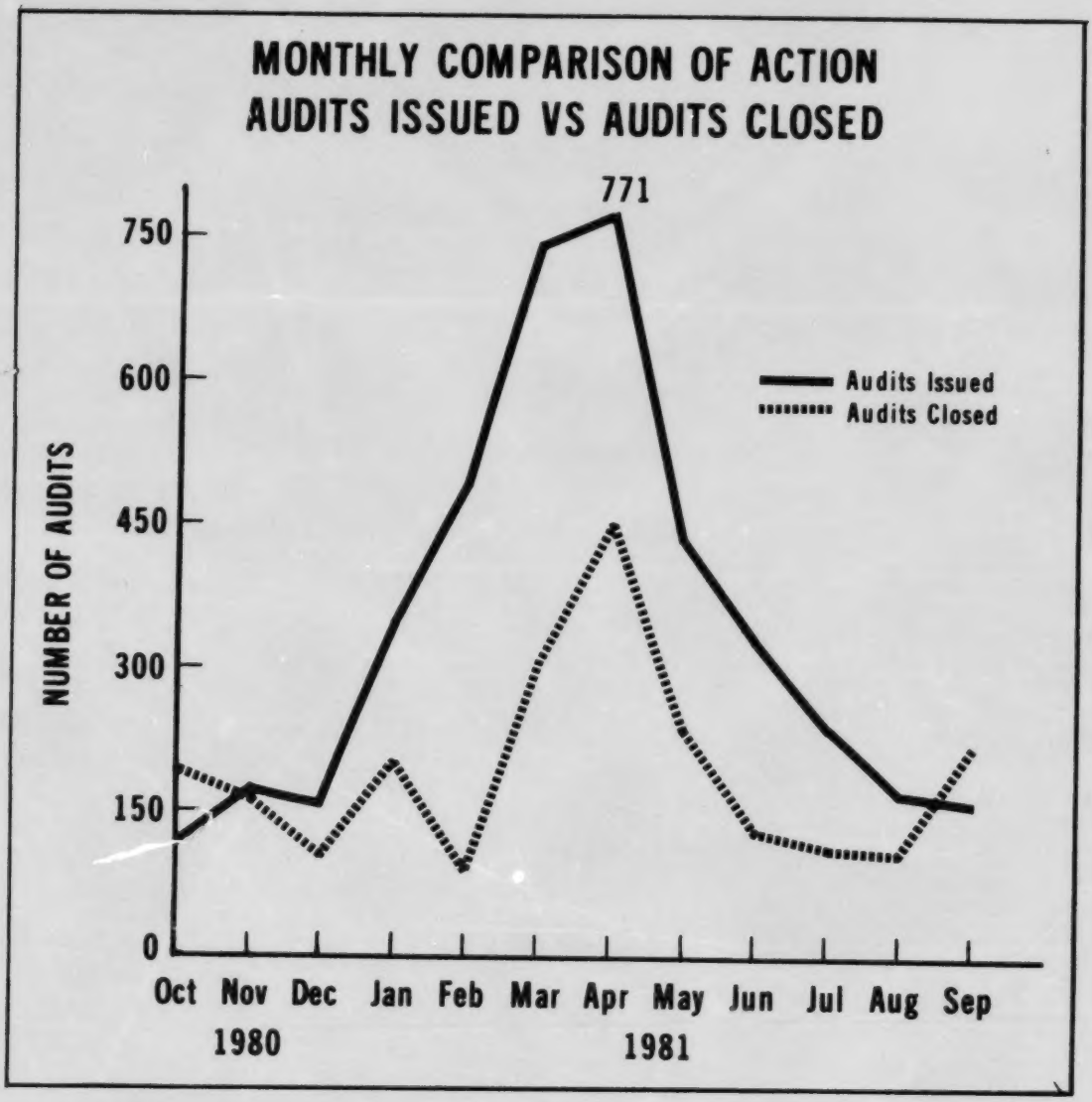
The number of unresolved audit reports continues to increase. At the beginning of the prior reporting period there were 1,565 unresolved audit reports. At the end of the prior reporting period there were 2,535 unresolved audit reports, a 62 percent increase. For this reporting period the number of unresolved audit reports has increased to 3,367, a 33 percent increase during the reporting period and a 115 percent increase during the fiscal year. During the last six months, a total of 2,707 audit reports were issued compared to 2,761 reports in the previous six month period. Of the 2,707 reports issued this period, 2,102 required or will require corrective action by program managers. Audit resolution activity for the period, by responsible action office, is shown in the following table:

AUDIT RESOLUTION ACTIVITY

APRIL 1, 1981 to September 30, 1981

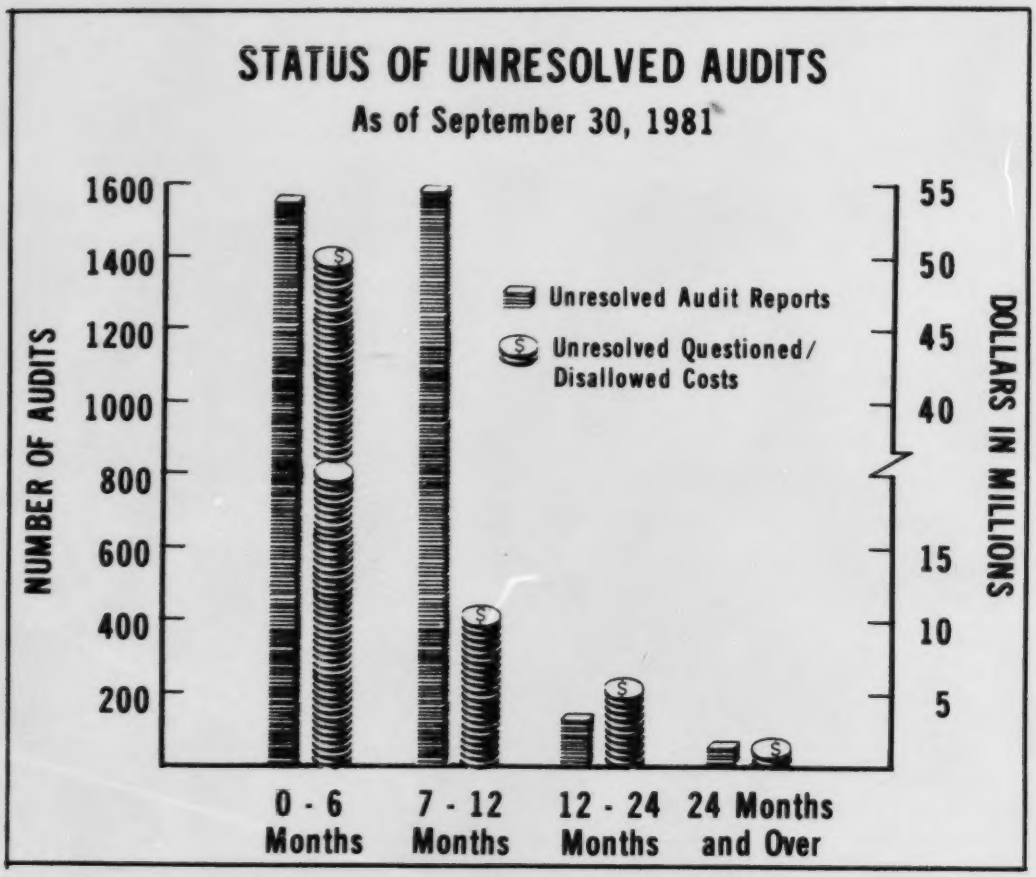
Action Office	Unresolved Audits on Hand at 4/1/81	Action Audits Issued This Period	Audits Closed This Period	Unresolved Audits on Hand at 9/30/81
Postsecondary Education	2,336	1,942	996	3,282
Procurement and Assistance Management	158	105	214	49
Elementary and Secondary Education	14	12	17	9
Special Education and Rehabilitative Services	11	20	16	15
Vocational and Adult Education	8	14	13	9
National Institute of Education	5	6	10	1
Educational Research and Improvement	3	3	4	2
TOTAL	2,535	2,102	1,270	3,367

The disparity between the number of audit reports issued and the number resolved is illustrated in the following trend chart.



Successful completion of the Department's audit resolution initiative should result in a reversal of the trends shown above.

A profile of unresolved audits by age group is given in the following diagram.



The 3,367 unresolved audits on hand involve questioned or disallowed costs amounting to $67.8 million. Of this number, 1,563 are under six months old and involve disallowed and/or questioned costs of $50.4 million. A total of 1,804 reports are over six months old of which 542 involve disallowed and/or questioned costs of $17.4 million.

2. Recovery of Disallowed or Questioned Costs

A major highlight of audit resolution involves the amount of funds recovered. Of the 1,270 audits closed during this period, 556 had monetary findings totalling approximately $66.2 million.

In resolving these reports, program managers sustained about $27.6 million, or 42 percent of the total recommended for recovery. Of the amounts sustained, approximately $500,000 had been recovered at the time of resolution. The $38.6 million not sustained by program managers had been allowed because the auditees subsequently provided supporting documentation or program officials determined that sufficient information was not available to sustain the recommended recovery.

Aside from the $27.6 million in sustained, disallowed or questioned costs, an additional $2.3 million was collected during this period from audits not yet resolved, bringing the total potential recoveries to almost $30 million.

E. STATUS OF PRIOR AUDIT RECOMMENDATIONS

The status of significant recommendations included in our last semi-annual report which have not been resolved, covering the period October 1, 1980 through March 31, 1981, is shown below. Management has generally been responsive to our recommendations. However, the matters reported below are complex, involve large amounts of questioned costs, and require action at the grantee level.

Resolution and recovery of the funds for these audits is continuing, and will be monitored by the OIG.

1. Student Financial Assistance

a. College Work Study and National Direct Student Loan Funds of $960,000 Misused (Page 5 Prior Report)

An audit of a University's College Work Study and National Direct Student Loan funds disclosed payments of $675,000 to ineligible students for College Work Study and improper use of funds from both programs for general operating expenses. The auditors recommended that the University repay ED $960,000 for the improper expenditures.

Status: Program officials agreed with the recommendations. However, ED has not received a response from the institution and no final decisions have been made on the amount of refunds due ED.

b. National Direct Student Loan Funds of $381,000 Overdrawn (Page 5 Prior Report)

Audits at two colleges disclosed that the institutions had drawn funds in excess of their requirements and used excess National Direct Student Loan funds for current operations or invested the funds in certificates of deposits. The auditors recommended repayment of $247,700 and $133,200 respectively from the institutions.

Status: The program officials agreed with the recommendations, and are in the process of evaluating comments received from the institutions and preparing final letters of determination.

2. Elementary and Secondary Education

Elementary and Secondary Education - Title I (Pages 8-10 Prior Report)

Reviews of approximately $100 million of program expenditures and administrative costs in one State disclosed that the State had improperly used Title I funds to provide general aid to education. The State also overstated the Federal share of the Title I administrative costs.

In our audit reports of December 1980 and March 1981, we recommended that $15.6 million be returned to the Department and that the State agencies involved improve their procedures for approving and monitoring Title I projects.

Status: The Department and State officials have reached an agreement on the amount of funds to be recovered. However, final resolution of this matter has not been completed pending approval of a proposed settlement agreement by the Department of Justice.

F. OTHER AUDIT ACTIVITIES

Additional audit activities having an impact on OIG operations during this period include our participation in implementing

the single audit concept and our efforts to reduce the backlog in auditing closed contracts.

1. Single Audit Concept

Our prior semi-annual report discussed efforts underway by the OIG to fully implement the single audit requirements set forth in Attachment P to the Office of Management and Budget Circular A-102.

In this period we have selectively provided guidance and technical assistance to State Education Agencies, independent public accounting firms and State audit organizations which are conducting pilot audits or developing audit programs to satisfy audit requirements. We have also processed 527 audit reports which were performed by Independent Public Accountants in accordance with the requirements of A-102. These reports, however, are not included in the total reports shown as issued by us on page 4.

2. Reducing Backlog in Contract Audits

The OIG currently has a backlog of approximately 1,000 contracts awaiting close-out audits before final payments can be made to contractors by the Department. To help alleviate this backlog, the OIG entered into contracts with four Section 8(a) contractors to provide the audit services needed on approximately 100 of these contracts. These four contracts were issued in late September 1981 due to unavoidable delays in fund availability and in obtaining and evaluating bids.

These actions, however, do not significantly decrease the large backlog of contracts requiring audits.

SECTION II

INVESTIGATION ACTIVITIES

A. INTRODUCTION

This section provides an overview of the investigation activities during this reporting period and an update of significant cases previously reported. It also includes statistical data pertaining to investigations, results of investigations, and highlights of cases.

B. INVESTIGATION ACCOMPLISHMENTS

Investigative activities during this period showed some significant gains. The number of cases accepted for prosecution by U.S. Attorneys increased from 10 in the prior six month period to 43 in this period. Cases declined for prosecution remained relatively constant - 26 as compared to 22 in the prior period. Indictments obtained rose to 41 in this period compared to 5 in the prior period. Moderate gains were also experienced in convictions/guilty pleas obtained, rising from 12 in the prior period to 16 in this period.

In addition, one defendant was fined a total of $1,000, six defendants were required to make restitution in the amount of $54,583 and seven were sentenced to incarceration, probation, or pre-trial diversion. Eight defendants are awaiting sentencing. There were no cases pending prosecutive decision at the end of this reporting period.

Since the last reporting period, the number of cases under active investigation has increased by approximately 10 percent. Also during this reporting period, the Office of Inspector General has formulated and adopted policies and procedures regarding initiating investigations. A preliminary inquiry is initiated and conducted when the available information regarding an allegation is insufficient to determine if a full-scale investigation is warranted. Full-scale investigations are initiated in those instances in which there is a reasonable indication that a violation has occurred or is occurring. The implementation of these procedures ensures that the OIG maximizes the efficient and effective utilization of its investigative resources by opening full-scale investigations only in cases of substance. In reporting our activity, the term "cases" only applies to full-scale investigations. Preliminary inquiries are not included.

1. Investigative Analyses

Summary data on the number of cases opened, closed and active for the period April 1, 1981 through September 30, 1981:

Cases active March 31, 1981	249
Cases opened this period	108
Cases closed this period	83
Cases active September 30, 1981	274

The cases initiated have been analyzed to show:

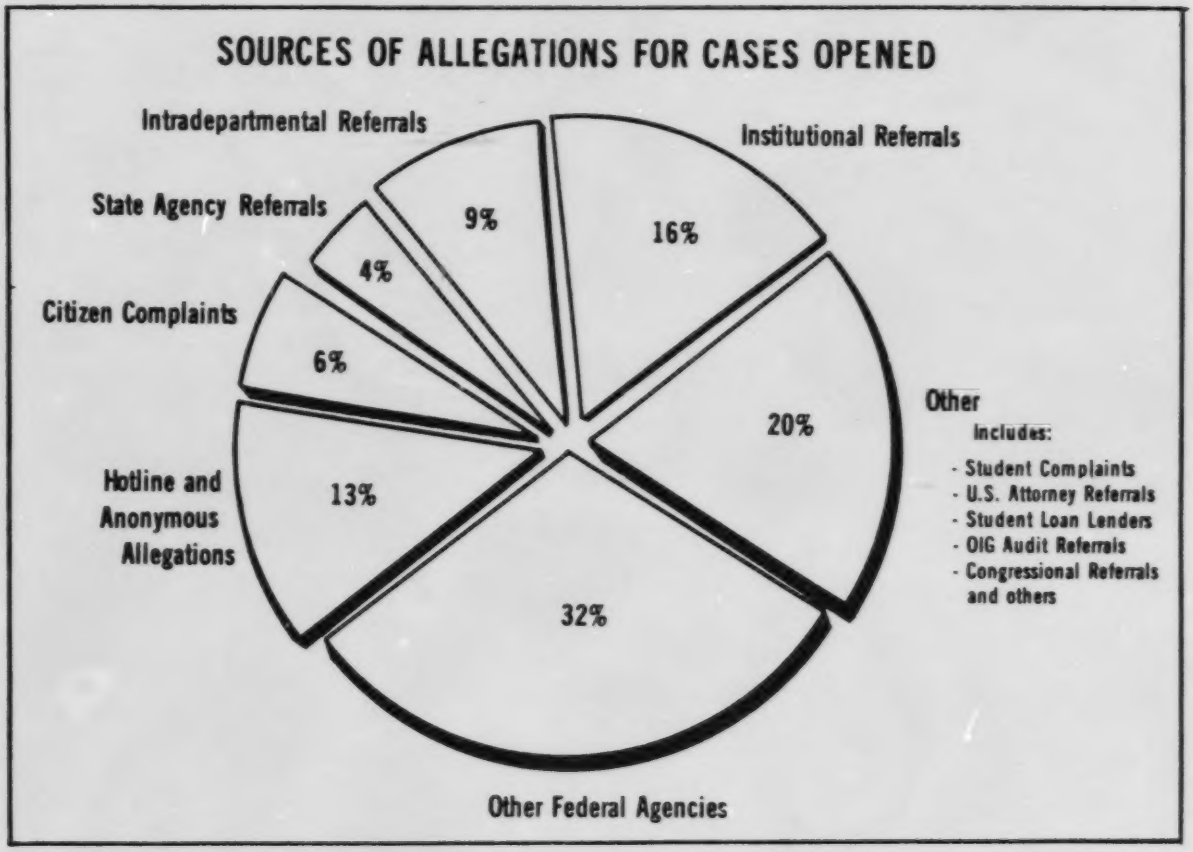
- o program areas which generate cases;
- o patterns of alleged violations; and
- o major sources of allegations.

During this reporting period, sixty-five percent of the 108 cases opened involved Student Financial Assistance programs. Of the remaining cases, twenty-two percent involved other Education Department programs and thirteen percent involved cases that were not program-specific (primarily employee misconduct cases). Major types of fraud in Student Financial Assistance programs included falsification of application documents for loans and grants, and misapplication of these funds at institutions. Most cases involved alleged violations of several criminal statutes. The following chart shows the incidence of possible violations among the 108 cases initiated during this reporting period:

ALLEGED CRIMINAL VIOLATIONS

Description	Number of Cases in Which Alleged
False statements	57
Student financial aid fraud	42
Fraud using the U.S. Mails, telephone, telegraph or false names or addresses	39
Embezzlement and failure to account for public funds	24
False claims and demands for payment of public funds	19
Bank fraud-credit information	7
Bribery of a public official and conflict of interest	7
Other Federal or local statutory violations	7
Conspiracy to defraud the U.S.	6

Allegations which lead to the initiation of OIG investigations are received from various sources. Analysis, by source, of cases initiated during this period discloses the following breakdown:



2. Investigation Output and Productivity Trends

Comparision of investigation accomplishments during the six month period with the preceding two semi-annual reporting periods disclosed some significant gains in several key areas. This is illustrated in the following comparative schedule.

COMPARATIVE SCHEDULE OF INVESTIGATION
OUTPUT/PRODUCTIVITY MEASURES

Output/ Productivity Measures	The Six Month Periods Ending: 9/30/80	3/31/81	9/31/81	Total
Cases Opened	*	220	108	328
Cases Closed	*	124	83	207
Cases Referred for Prosecution	16	32	69	117
Cases Accepted	9	10	43	62
Cases Declined	7	22	26	55
Indictments	5	5	41	51
Convictions	1	12	16	29
Restitution and Fines	$585,000**	$2,500	$55,000	$642,500

* OIG Start-up Period - Statistical data not available.

**Represents ED funds recovered or negotiated for repayment during OIG Start-up Period.

C. HIGHLIGHTS OF SIGNIFICANT INVESTIGATIONS

The following section provides examples of some of the more significant cases referred to the U.S. Attorney or concluded during the period, an update of investigations included in the prior semi-annual report, and a discussion of matters referred to Departmental officials for administrative action.

1. Cases Referred to U.S. Attorney

- The owner of a proprietary school was the subject of a seven count indictment by a Federal Grand Jury. The indictment charged embezzlement and mail fraud. The defendant's school obtained and spent approximately $16,000 in College Work Study funds for a non-existent work study program at the school.

- An individual was sentenced to one year incarceration (9 months suspended) and three years probation by a Federal District Court judge after pleading guilty to a four count indictment. The defendant had fraudulently obtained $5,000 in Guaranteed Student Loans by using fictitious names, social security numbers, and birth dates.

- A Federal Grand Jury returned a one count indictment against a former school student loan officer for forging a Guaranteed Student Loan check and personally using the proceeds. The subject will probably be tried in October 1981.

- In June 1981, an individual pled guilty in U.S. District Court, to fraudulently obtaining a $2,500 Guaranteed Student Loan. The plea was accepted and the subject was sentenced to three years probation and ordered to make full restitution.

- A former college financial aid officer was indicted by a Federal Grand Jury in August 1981, on 16 counts of embezzlement and false statements. The financial aid officer falsified approximately $4,700 in Pell Grant checks to students and then converted the checks for personal use.

- The president of a proprietary school pled guilty to one count of false statements and one count of aiding and abetting as part of a scheme to defraud the Pell Grant program. The criminal counts related to 134 Pell Grants and approximately $19,000 diverted to the defendant's personal use. The defendant was sentenced to six months incarceration, 2½ years probation, and restitution of the misapplied funds.

- An individual was sentenced in Federal District Court, Tallahassee, Florida to two years probation and directed to perform one hundred hours of public service work. The subject was convicted of forging the signature of a college financial aid officer in order to obtain a $2,500 Guaranteed Student Loan.

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- A College Work Study student who falsified time sheets was arrested by local authorities after a cooperative investigation with OIG special agents. The student was charged and later pled guilty to a violation of a local statute alleging "Abuse of Public Records."

- A Federal Grand Jury returned indictments on 27 persons as a result of a joint investigation by OIG special agents, Postal Inspectors, and Immigration and Naturalization Service investigators. Those indicted were non-resident aliens who falsified applications for Pell Grants and Guaranteed Student Loans by claiming U.S. citizenship.

- A Federal Grand Jury in New York returned a four count indictment charging an individual with bank fraud. The defendant allegedly prepared fraudulent Guaranteed Student Loan applications.

- Two individuals were indicted by a Federal Grand Jury in August 1981 for making false statements in connection with the submission of College Work Study time cards. The individuals falsely claimed employment at a Department of Defense installation.

- In May 1981, an individual was convicted by a State court on felony charges involving the theft of U.S. property. The subject was convicted of falsifying time sheets in the College Work Study program and placed in a diversion sentencing plan, under which the subject's criminal record will be expunged providing the defendant repays the funds and commits no further offenses. Federal prosecution had previously been declined in favor of State prosecution.

2. Matters Referred for Administrative Action

In appropriate cases, it is the policy of the Inspector General to refer the results of investigations to the proper Departmental officials for necessary administrative or personnel actions. Where disciplinary action is believed necessary, the Inspector General may recommend such action to the appropriate officials.

Employee misconduct investigations represented the majority of cases referred for administrative or personnel action within the Department. Time and attendance abuse constitutes the most frequent type of employee misconduct. Administrative sanctions for this type of misconduct have ranged from suspension to reprimands. Two investigations referred for personnel action are still pending management decisions on administrative sanctions. In other investigations, an employee who misused a Government vehicle was terminated and a program official who used franked Government envelopes in a private fund raising campaign was given an official reprimand.

The results of several investigations involving one of the Department's grant programs was referred to the program managers. The investigation substantiated allegations that local agencies in one state were improperly using grant funds for purposes not originally intended.

It was also found that Departmental program officials were aware of this misuse of funds as early as 1979. The program officials have been officially reprimanded and the Local Education Agencies involved have been denied further grants. Necessary administrative action is being pursued to initiate recovery of improperly expended funds.

3. Update of Previously Reported Investigations

Our last semi-annual report highlighted several investigations which have since been concluded with the following results:

- In June 1981, an official for a local school district received a one year sentence which was suspended on condition that restitution of the embezzled Federal funds be made. The defendant admitted drawing checks against accounts containing Federal funds and using the money for personal purposes.

- An individual was convicted on 20 counts of falsifying information to obtain multiple Guaranteed Student Loans. The defendant was sentenced to serve 18 months in prison, three years probation, and repay $6,250 (one-half of illegally obtained Guaranteed Student Loans).

- In July 1981, an individual who had received a Pell Grant by falsifying the school certification on a disbursement document pled guilty to a one count criminal information.

SECTION III

FRAUD CONTROL ACTIVITIES

During this reporting period, the Secretary, based on recommendations and guidelines submitted by the Inspector General, formed a Commitee on Fraud, Waste and Mismanagement. The OIG also continued the performance of vulnerability assessments and operation of the ED Complaint Center. In addition, projects were initiated which will heighten employees' awareness of and their responsibility to report instances of fraud, waste or mismanagement within the Department.

A. COMPLAINT CENTER

Since the Complaint Center was established on August 4, 1980, we have received a total of 158 complaints, including 52 referred by the General Accounting Office. The chart below depicts the types and numbers of complaints received and the current status of related inquiries.

STATUS OF OIG HOTLINE COMPLAINTS RECEIVED

Type of Complaint	Number Received	Referred to: OIG	Referred to: Program Office	Closed by: OIG	Closed by: Program Office	Allegations Substantiated	Open Cases
Institutional Fraud/Misuse of Funds	45	28	17	12	13	7	20
Grants/Contracts Fraud	27	17	10	7	5	2	15
Misuse of Travel & Misc. ED Expense Funds	15	10	5	3	3	2	9
Student Fraud	15	7	8	5	6	0	4
Other Employee Misconduct	13	6	7	2	5	3	6
ED/Administrative	12	6	6	6	5	0	1
Time & Attendance Abuse by Employees	12	12	0	5	0	1	7
Personnel/EEO	10	0	10	0	6	2	4
Other	9	3	6	3	6	1	0
TOTALS:	158	89	69	43	49	18	66

Of the 92 complaints closed, 18 (approximately 20%) were substantiated in whole or in part, resulting in some sort of corrective action. Examples of some of the more significant complaints substantiated follow:

- An anonymous complaint alleged that an ED grantee was underpaying faculty members in order to accumulate and use grant funds for unauthorized purposes. In response to this complaint, we conducted an audit and confirmed the allegation. The OIG recommended that, in addition to making certain programmatic corrections and improvements, the school refund to the Department over $150,000 in misused grant funds.

- Another anonymous complaint alleged that an ED grantee was making changes to the grant which were not within the limits of the negotiated agreement.

A review disclosed that there were excessive costs particularly in the areas of unauthorized equipment purchases and attendance at conferences by grantee employees. As a result, over $20,000 in unauthorized expenditures were documented and disallowed.

B. SPECIAL PROJECTS

1. Employee Awareness

The Office of Fraud Control in OIG is continuing its efforts to heighten Department employees' awareness of their responsibilities to prevent waste and mismanagement. We have issued the first in a series of Inspector General Integrity Guides. The guide provides brief descriptions of ED's standards of conduct, actual examples of activities by ED employees which violated those standards of conduct and the disciplinary actions taken.

To further inform employees in this area, we are also using a video tape, released under the auspices of the President's Council on Integrity and Efficiency. The video tape entitled "The Consent of the Governed, an Enduring Public Trust," is a series of vignettes in which potential or actual violations of Federal employee standards of conduct are presented. Between the vignettes, time is allowed for group discussion on the concepts covered and for employees to share their ideas and experiences.

We are also continuing our efforts to promote the use of the OIG hotline. Our latest effort involved distributing pressure

sensitive telephone stickers to be placed on all Departmental telephones. The stickers will be a constant reminder to employees of the availability of the OIG hotline to register complaints of fraud, waste or mismanagement.

2. Committee on Fraud, Waste and Mismanagement

The Secretary of Education, in a memorandum dated August 11, 1981, established a Committee on Fraud, Waste and Mismanagement. The memorandum emphasized the commitment and involvement of key officials throughout ED to curb fraud, waste and mismanagement in ED programs and operations. The Committee was established by the Secretary on the basis of recommendations and guidelines submitted by the Inspector General.

The Committee was formed to provide leadership and coordinate the Department's efforts to minimize the occurrence of fraud, waste and mismanagement. It is composed of the Assistant Secretaries and other principal action officials who can recommend or take action on matters related to policy, planning, implementation and resource requirements. This initiative emphasizes the responsibility that each organization in ED has to identify potential areas of fraud and abuse before they develop into major problems.

The Committee has already met twice and has established a team to conduct a pilot project assessing the internal controls of a Departmental program. In addition, a project planning team

has been formed to identify other areas for projects within the Department.

SECTION IV

OTHER MATTERS

The following are several other matters which have affected OIG operations during the reporting period.

A. REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act of 1978 (Public Law 95-452), requires Inspectors General to review existing and proposed legislation and regulations relating to programs and operations of their Departments. These reviews are made to determine the impact of such legislation and regulations on the economy and efficiency of programs and operations financed by the Department and on the prevention and detection of fraud and abuse in these programs and operations.

During the period from April 1, 1981 through September 30, 1981, we reviewed and provided comments where appropriate on twenty-five legislative proposals and seventy-four proposed regulations affecting the Department and the OIG. We also issued a seven day report under Section 5(d) of the Inspector General Act on the potentially adverse effects of proposed amendments to the Federally Insured Student Loan program. Following are summaries of our comments on significant pieces of legislation reviewed during this period.

1. S.1377 Omnibus Reconciliation Bill - Proposed Amendments to Federally Insured Student Loan Program

Pursuant to the provisions of Section 5(d) of the Inspector General Act of 1978, we provided to the Secretary and the Congress a report on June 26, 1981 outlining our concerns over proposed amendments to the Federally Insured Student Loan program statute approved the previous week by the Senate Labor and Human Resources Committee and Senate Budget Committee as part of the Omnibus Reconciliation bill. Specifically, we reported that the amendments:

- Could be interpreted as providing an exclusive, but inadequate list of permissible grounds for ED's rejection of default claims after January 1, 1973;
- Would provide a powerful incentive for lenders to make loans exclusively to students at schools that agree to perform free of charge all of the lenders' Federally Insured Student Loan duties;
- Could be interpreted as relieving lenders of all responsibility for misconduct by their school representatives absent "actual knowledge" of such misconduct;
- Appeared to require the Department to pay Federally Insured Student Loan default claims within 30 days of filing, thereby impairing ED's ability to avoid paying defective claims.

We advised the Secretary and the Congress that, in our view, the proposed amendments posed a serious threat to the Department's ability to prevent fraud and abuse in the program and to administer it economically and efficiently. We further advised that the proposed amendments could seriously jeopardize the success of some of the

Department's long and costly efforts to save or recover approximately $250 million in Federally Insured Student Loan payments. These efforts were undertaken because the Department had discovered fraud or abuse in the program by certain lenders or their agents. The amendments have been withdrawn.

2. S.807 Federal Assistance Improvement Act of 1981 and S.45 Federal Assistance Reform Act of 1981

These bills would simplify and coordinate the management of Federal assistance programs and requirements. Title II of both bills prescribes a single independent financial and compliance audit at least once every two years for each State and local government and non-profit organization, and their subgrantees, receiving more than $100,000 in Federal assistance each year. Entities receiving less than $100,000 in Federal assistance each year would have to be audited at least once every five years.

Our major concerns in this area related to the language used in section 202 of the bills to describe terms such as "Financial and Compliance Audits," "Significant Compliance Requirements," and "Independent Auditors."

Generally we felt that these terms were inadequately described. We therefore suggested changes to the language, which we felt would help strengthen and clarify the type of audit and compliance coverage intended.

We also expressed concern that as presently drafted, Section 204(e)(2) of each bill would permit independent auditors to receive financial settlements for costs incurred in performing unacceptable audits.

3. H.R. 2580 To Amend the Federal Property and Administrative Services Act of 1949

The purpose of the amendments was tc reform contracting procedures and contract supervision practices of the Federal government, and for other purposes.

In general, we supported the intent of the bill. However, we had serious concerns regarding the provision that at least twenty percent of the negotiated contracts exceeding $10,000 awarded each year must be audited. Current Federal Procurement Regulations require this Office to conduct pre-award audits of firm fixed-price contracts exceeding $100,000 and cost-type contracts exceeding $250,00 and to perform close-out audits on contracts exceeding $100,000 before making final payment to the contractor. Reduction of the threshhold to $10,000 would impose a very heavy additional workload.

We also expressed concern regarding the provision which authorizes the Administrator of the General Services Administration in consultation with the General Services Administration Inspector General to promulgate regulations prescribing a uniform system of contract

audits. Since the project to establish a uniform system of contract audits is of mutual concern and interest to all Inspectors General, we felt it essential that the project be addressed as a joint and cooperative effort among all Offices of Inspectors General.

B. PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

We are participating in a number of interagency projects initiated by the President's Council on Integrity and Efficiency. These projects generally involve Government-wide audit or investigative efforts and are briefly described below.

- Property Held by Contractors and Grantees

  The purpose in furnishing Government-owned assets is to facilitate economical, efficient and effective performance on Government contracts and grants. Questions have been raised as to whether legislative action is needed in assisting executive agencies in the management of Government-furnished property and equipment.

- Imprest Fund/Agent Cashier Accounts

  The objective of this initiative is to test whether each Federal Department and agency is administering and controlling imprest funds prudently for the purposes authorized by the Congress and in accordance with applicable laws and regulations.

- Computer Matches

  Past reviews have shown that Federal employees have improperly received Government assistance or have delinquent debts due the Government. This project is designed to identity Federal employees or retirees who are erroneously or fraudulently receiving Government payments and to identify Federal employees or retirees indebted to the Government and to initiate appropriate collection action.

- Unliquidated Obligations

  Combined unliquidated Federal obligations as reported to the Treasury Department as of September 30, 1980 exceeded $443 billion. The purpose of this survey was to obtain financial data on unliquidated construction related activities. The data was to be used to select specific Federal Departments for inclusion in the Government-wide review of unliquidated obligations.

These Government-wide Inspector General initiatives should provide the basis for making meaningful recommendations in administering and controlling Federal programs and activities which are generally more susceptible to fraud, waste and mismanagement.

We are participating in a project on Governmental standards of conduct. This project is designed to identify and compare how standards of conduct for Federal employees have been developed by the various Federal Departments and agencies, and the extent to which they have been adopted. The project will also focus on determining the most effective means of educating employees on their responsibilities for complying with the standards, and the effectiveness of the standards in deterring fraud, waste and abuse. The OIG Office of Fraud Control is working closely with the Office of Government Ethics on this project.

C. STAFFING

The OIG is working under a full time equivalent personnel ceiling of 304 positions. Of the 304 authorized positions, 288 were filled as of September 30, 1981 and allocated as shown in the following comparative analyses of staffing for this six month period and the prior six month period.

LOCATION AND NUMBER
OF ON BOARD STAFF

Washington	On Board 3/31/81	On Board 9/30/81	Increase (Decrease)
Auditors	22	22	-0-
Investigators	19	18	(1)
Other Professionals	20	21	1
Support	14	15	1
TOTAL Washington	75	76	1
Field			
Auditors	141	134	(7)
Investigators	50	48	(2)
Other Professionals	5	2	(3)
Support	29	28	(1)
TOTAL Field	225	212	(13)
Total Staffing			
Auditors	163	156	(7)
Investigators	69	66	(3)
Other Professionals	25	23	(2)
Support	43	43	0
TOTAL Staffing	300	288	(12)

As indicated we have lost a total of 12 employees since our last report, leaving us 16 positions below our presently authorized strength of 304.

Although the Omnibus Education Reconciliation Act of 1981 provides for an increase of 31 positions in fiscal year 1982 for the OIG, we are uncertain at this time what, if any, effects the additional cuts proposed by the President in September 1981 will have on this authorized level of staffing.

D. ESTABLISHMENT OF OIG GOALS FOR FISCAL YEAR 1982

In order to more effectively carry out our mission and maximize the utilization of limited resources, we recently instituted an annual planning process and issued overall goals for fiscal year 1982. These goals will serve to focus our resources on the most necessary activities, thereby improving the efficiency of our own internal operation. They will also enhance our efforts to improve the efficiency and economy of Department of Education operations and limit the occurrence of fraud and abuse. As such, the goals address principal concerns of the President, Congress and the Secretary. In developing the goals, we incorporated major goals and priorities defined by the Secretary for the entire Department. Several of the Secretary's goals--such as (1) reducing costs to operate the Department and (2) reduction in fraud, waste and marginal results--related specifically to the major missions of the OIG as spelled out in the Inspector General Act of 1978.

Among the most significant goals established for the coming year are the following:

- An increased focus on return on investment. We will focus on identifying and conducting activities in those areas in which the potential for recovery is greatest.

- Continued implementation of OMB Circular A-102, Attachment P. This will enable us to rely more heavily on non-Federal auditors to conduct financial and compliance audits, thereby freeing OIG auditors to concentrate more on economy and efficiency reviews.

- An increase in the level of audit coverage in the areas of internal management and administrative control. These are priority areas for the allocation of our own resources.

- Establishment of a comprehensive Department-wide system for resolving audits. This system is designed to ensure prompt and effective response and corrective action to audit reports and to reduce the current backlog of unresolved reports.

- Intensification of our vulnerability assessment and proactive investigation efforts. Vulnerability assessments will systematically review Departmental programs and activities to identify those which are particularly vulnerable to fraud, waste and abuse. In concert with these, proactive investigations will seek out occurrences of fraud and abuse.

- Increasing the awareness of Department employees about the OIG. This is in recognition of the fact that employees are an important source of identifying instances of wrongdoing.

The OIG goals were established as part of an annual planning process which also includes the development of specific objectives to implement the goals. The objectives will be incorporated into the performance appraisal contracts of key OIG staff and used as a basis for evaluating accomplishments. The incorporation of these objectives in the annual performance contracts will ensure that the goals receive the high level attention that they demand.

E. SUBPOENAS ISSUED

The Inspector General is authorized to issue administrative subpoenas to require the production of information necessary in the performance of mandated responsibilities. During this reporting period, two administrative subpoenas were issued and

fully complied with. Three administrative subpoenas were issued during the prior reporting period.

F. GENERAL ACCOUNTING OFFICE REPORTS

The OIG is the main control point for handling U.S. General Accounting Office (GAO) reports to ensure that (1) reports are properly distributed to responsible officials, (2) replies are made timely and accurately reflect the official position of the Department, and (3) actions promised in response to the reports are tracked to completion. Additionally, the OIG maintains continuous liaison with the General Accounting Office to keep informed of its activities within ED and to minimize any potential overlap in audit coverage.

During this period, we processed fifteen GAO reports for comment or action in ED. Of these, eight were draft reports and seven were published reports.

G. REFUSAL OF INFORMATION

Section 5(a)(5) of the Act requires the Inspector General to include in this report a summary of any report made to the Secretary whenever information or assistance is unreasonably refused or not provided.

The OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance.

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

SOURCE	LOCATION IN REPORT
INSPECTOR GENERAL ACT	
Section 4(a)(2) -- Review of Legislation and Regulations	Section IV, Part A, Page 65
Section 5(a)(1) -- Significant Problems, Abuses, and Deficiencies	Section I, Part C, Page 10 Section II, Part C, Page 54
Section 5(a)(2) -- Recommendations with Respect to Significant Problems, Abuses and Deficiencies	Section I, Part C, Page 10
Section 5(a)(3) -- Prior Significant Recommendations Not Yet Implemented	Section I, Part E, Page 43
Section 5(a)(4) -- Matters Referred to Prosecutive Authorities	Section II, Part B, Page 49
Section 5(a)(5) and 6(b)(2) -- Summary of Instances Where Information was Refused	Section IV, Part G, Page 74
Section 5(a)(6) -- Listing of Audit Reports	Appendix 2, Page 76

Federal Audits of Education Department Programs
April 1, 1981 through September 30, 1981

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 238 audit reports were completed by Federal auditors, 90 with audit findings and 148 without findings. These reports are listed below:

A. Audit Reports With Findings

Number	Auditee and State	Date Issued
01-11001	So Central Community College, CT	06/81
01-11002	Emerson College, MA	05/81
01-14005	Massachusetts Board of Higher Education, MA	03/81
01-14008	Boston State College, MA	03/81
01-14009	Massachusetts Department of Education, MA	09/81
01-19950	Contract Research Corp., MA	08/81
02-11200	New York State Higher Ed. Serv. Corp., NY	05/81
02-11205	New York State Higher Ed. Svc. Corp., NY	08/81
02-11210	New York State Higher Ed. Svc. Corp., NY	08/81
02-11212	New York State Higher Ed. Svc. Corp., NY	08/81
02-11351	New York School of Computer Technology, NY	04/81
02-11352	Eastern School for Physicians, NY	06/81
02-11353	Garden State Academy of Hair Fashion and Cosmetology, NJ	09/81
02-14009	Puerto Rico Education Department, PR	07/81
02-14011	New Jersey Department of Labor and Industry, NJ	07/81
02-14012	Puerto Rico Department of Social Services, PR	07/81
02-14013	Commonwealth of Puerto Rico, PR	08/81
03-10004	Delaware Department of Public Instruction, DE	06/81
03-10005	West Virginia Department of Education, WV	07/81
03-10100	Lincoln County Board of Education, WV	09/81
03-11200	Fashion Academy of Pittsburgh, PA	05/81
03-11451	Marywood College, PA	09/81
03-13001	U.S. Department of Education - Region III, PA	04/81
03-14003	Virginia State Board of Education, VA	03/81
03-14004	Maryland State Department of Education, MD	03/81
03-14005	Virginia State Board of Education, VA	04/81
03-14006	Pennsylvania Department of Education, PA	07/81
04-10101	SE Center for Deaf Blind Children, AL	09/81
04-10103	Tennessee Department of Education, TN	05/81
04-11300	Paine College, GA	08/81
04-14001	Elks Memorial Center, AL	04/81
04-14003	South Carolina Board of Education, SC	04/81
04-14004	Exodus Inc., GA	06/81
04-14005	South Carolina Commission for the Blind, SC	04/81
04-14006	Florida Department of Education, FL	06/81
04-14007	Knoxville College, TN	04/81
04-14008	Nielsen Electronics Institute, SC	04/81
04-14009	Mississippi Department of Education, MS	04/81
05-10103	Indiana Department of Public Instruction, IN	09/81

05-11300	University of Wisconsin-Milwaukee, WI	08/81
05-13585	Indiana Department of Public Instruction, IN	09/81
05-14201	U.S. Department of Education - Region V, IL	03/81
05-14202	State Board of Vocational & Technical Education, IN	09/81
05-14205	Cleveland Metro General Hospital Sch of Nursing, OH	04/81
05-14350	Advance Schools Inc., IL	03/81
05-19600	Ohio University, OH	06/81
06-10100	Oklahoma State Department of Vocational and Technical Education, OK	04/81
06-10550	Texas State Commission for the Blind, TX	07/81
06-10551	Louisiana Dept of Health and Human Services, LA	05/81
06-10553	Louisiana Dept of Health and Human Services, LA	08/81
06-11003	Huston Tillotson College, TX	05/81
06-11004	Paul Quinn College, TX	05/81
06-13002	Rehabilitation Services Administration-Region VI, TX	08/81
06-13672	Southwest Texas State University, TX	04/81
07-03329	Westinghouse Learning Corporation, IA	06/81
07-11300	Grand Island Beauty School, NE	09/81
07-11302	Grand Island School of Business Inc., NE	09/81
08-10550	Utah State Board of Education, UT	06/81
08-14001	Utah State Board of Education, UT	04/81
08-14002	University of Denver, CO	04/81
08-14003	Utah State Board of Education, UT	06/81
09-10100	California State Department of Education, CA	09/81
09-10101	Southwest Region Deaf Blind Center, CA	05/81
09-10105	California State Department of Education, CA	08/81
09-10450	California State Department of Education, CA	09/81
10-10100	Washington State Commission for Vocational Education, WA	07/81
10-10550	Oregon Commission for the Blind, OR	04/81
11-13001	Office of Student Financial Assistance - U.S. Department of Education, D.C.	09/81
11-13004	Office of Financial Management - U.S. Department of Education, D.C.	09/81
12-13001	Technical Assistance Consortium to Improve College Services, TN	06/81
12-13006	Office for Handicapped Individuals - U.S. Department of Education, D.C.	08/81
12-13397	National Scholarship Service and Fund for Negro Students, NY	09/81
12-13442	Educational Film Center, VA	06/81
12-13534	George Peabody College, TN	06/81
12-13535	George Peabody College, TN	08/81
12-13673	Center for Educational Development, TX	05/81
12-13766	Blue Hills Home Corporation, MO	07/81
12-13842	State Higher Education Executive Officers Assoc, CO	04/81
12-14067	Communication Technology Corporation, NJ	08/81
12-14118	American Vocational Association Inc., VA	05/81
12-14119	Roy Littlejohn Associates Inc., D.C.	05/81
12-14129	Pennsylvania State University, PA	08/81
12-14132	RMC Research Corporation, VA	08/81
12-14143	Delta Research Corporation, VA	09/81

12-14208	Illinois State University, IL	05/81
12-14214	University of Wisconsin - Stevens Point, WI	05/81
12-14254	CPI Associates Inc., TX	06/81
12-14312	University of Kansas, KS	04/81
12-14314	University of Kansas Medical Center, KS	04/81
12-14406	California State University, Fullerton Foundation, CA	05/81

B. Audit Reports Without Findings

Number	Auditee and State	Date Issued
02-11206	Long Island College Hospital, NY	05/81
02-11207	New York University, NY	05/81
02-11208	Crouse Irving Memorial Hospital, NY	05/81
02-11209	Glassboro State College, NJ	06/81
02-11211	Riverview Hospital, NJ	06/81
02-11214	Memorial Hospital-Albany, NY	07/81
02-11216	Rutgers-The State University of New Jersey, NJ	09/81
02-13001	Rehabilitation Services Administration, NY	04/81
03-11201	Lears International School, Inc., D.C.	02/81
03-11202	Georgetown School of Science and Arts, D.C.	09/81
04-11500	Alabama Institute of Business, AL	06/81
05-01702	State Community College, IL	11/79
05-11202	John Wesley College, MI	02/81
05-11206	Northern Michigan University, MI	06/81
05-11207	Loyola University, IL	06/81
05-11208	University of Minnesota, MN	06/81
05-11209	Western Michigan University, MI	07/81
05-11210	University of Dayton, OH	07/81
05-11212	Ohio State University, OH	07/81
05-11213	Colyer Hall, IL	08/81
05-13001	Review of Regional Office for Vocational Education Region V - U.S. Department of Education	04/81
05-13003	Review of Salary Overpayment, U.S. Department of Education	05/81
05-14356	Rend Lake College, IL	03/81
05-14360	Southern State Community College, OH	03/81
05-14362	Moler-Hollywood Beauty College, OH	03/81
05-17350	Wisconsin Board of Vocational, Technical and Adult Education, WI	09/81
06-11452	East Texas State University, TX	06/81
06-11551	Southern University System, LA	09/81
06-14002	Oklahoma Capitol Improvement Authority, OK	05/81
06-14003	Mental Health-Mental Retardation Center, Austin, TX	05/81
09-10106	California State Department of Education, CA	09/81
11-13017	National Conference of State on Building Codes Standards, D.C.	06/81
12-13320	Eugene O'Neill Memorial Theatre Center, CT	04/81
12-13321	Morgan Blashfield, Inc., MA	07/81
12-13322	Education Development Center, Inc., MA	09/81
12-13323	Education Development Center, Inc., MA	09/81
12-13398	Adelphi University, NY	06/81
12-13399	Recording for the Blind, NY	08/81
12-13400	Center for Resource Management, NY	08/81
12-13401	Community Service Society, NY	08/81
12-13403	Modern Language Association of America, NY	09/81
12-13443	JFK Center for the Performing Arts, D.C.	07/81
12-13444	Pennsylvania Department of Education, PA	07/81
12-13445	Market Dimensions, Inc., VA	09/81
12-13538	Auburn University at Montgomery, AL	07/81
12-13582	Behavioral Research and Action in Social Services Foundation, Inc., IL	05/81

12-13583	High Scope Educational Research Foundation, MI	07/81
12-13676	Center for Educational Development, TX	08/81
12-13767	Independence Missouri Public School District, MO	06/81
12-13768	Blue Hills Home Corporation, MO	07/81
12-13769	Blue Hills Home Corporation, MO	08/81
12-13771	Kemp and Young, Inc., KS	09/81
12-13882	Awareness House Training Development System, CA	05/81
12-13883	KCET Community Television of Southern California, CA	06/81
12-13884	University of Southern California, CA	08/81
12-13885	E.H. White and Company, CA	09/81
12-13959	NW Region Educatinal Laboratory, OR	06/81
12-13960	Nero and Associates, Inc., OR	06/81
12-13961	Franklin Pierce School District 402, WA	09/81
12-13966	Oregon State System of Higher Education, OR	08/81
12-13968	NW Region Educational Laboratory, OR	08/81
12-13969	NW Region Educational Laboratory, OR	08/81
12-13970	NW Region Educational Laboratory, OR	08/81
12-13971	NW Region Educational Laboratory, OR	08/81
12-13972	NW Region Educational Laboratory, OR	08/81
12-13973	NW Region Educational Laboratory, OR	08/81
12-19974	NW Region Educational Laboratory, OR	08/81
12-13976	Cashmere School District 222, WA	09/81
12-14000	Kurzweil Computer Products, Inc., MT	05/81
12-14001	School of Public Health, Harvard University, MA	06/81
12-14002	Bolt, Beranek & Newman, Inc., MA	08/81
12-14057	Catholic University of Puerto Rico, PR	04/81
12-14058	University of Puerto Rico, PR	04/81
12-14059	Syracuse University, NY	04/81
12-14060	Inter-American University of Puerto Rico, PR	04/81
12-14061	Educational Testing Service, NJ	05/81
12-14062	Educational Testing Service, NJ	05/81
12-14063	Educational Testing Service, NJ	05/81
12-14064	Educational Testing Service, NJ	06/81
12-14065	University of Puerto Rico-Mayaguez Campus, PR	06/81
12-14066	Educational Testing Service, NJ	06/81
12-14068	Educational Testing Service, NJ	08/81
12-14115	Drexel University, PA	04/81
12-14116	Computer Network Corporation, D.C.	04/81
12-14117	American Institute for Research, D.C.	05/81
12-14120	Pinkerton Computer Consultants, PA	05/81
12-14121	ICF Incorporated, D.C.	06/81
12-14122	RMC Research Corporation, VA	06/81
12-14123	Creative Mailing Consultants of America, MD	06/81
12-14124	Pennsylvania State University, PA	06/81
12-14125	American University, D.C.	06/81
12-14126	Applied Management Sciences, MD	07/81
12-14127	National Academy of Sciences, D.C.	08/81
12-14128	Pennsylvania State University, PA	08/81
12-14130	Nonpublic Education Services, Inc., MD	08/81
12-14131	American Institute for Research, D.C.	08/81
12-14133	League of Cities Conference of Mayors, D.C.	08/81
12-14134	Biospherics, Inc., MD	09/81
12-14135	Killalea Associates, Inc., VA	08/81
12-14136	Kappa Systems, Inc., VA	09/81

12-14137	Middlesex Research Center, D.C.	09/81
12-14138	American Institute for Research, D.C.	09/81
12-14139	American Institute for Research, D.C.	09/81
12-14140	L Miranda and Associates, MD	09/81
12-14141	University of Maryland, MD	09/81
12-14142	American Institute for Research, D.C.	09/81
12-14158	Florida State University, FL	04/81
12-14159	NTS Research Corporation, NC	06/81
12-14160	University of Miami, FL	06/81
12-14161	National Conference of State Legislatures, CO	06/81
12-14162	University of Alabama in Birmingham, AL	07/81
12-14163	University of Kentucky Research Foundation, KY	09/81
12-14207	Ohio State University Research Foundation, OH	04/81
12-14208	Illinois State University, IL	05/81
12-14209	Loyola University of Chicago, IL	04/81
12-14210	Ohio State University Research Foundation, OH	04/81
12-14211	University of Minnesota, MN	04/81
12-14212	Southern Illinois University, IL	04/81
12-14213	Illinois Institute of Technology, IL	05/81
12-14216	Ohio State University Research Foundation, OH	08/81
12-14217	University of Minnesota, MN	08/81
12-14218	National Opinion Research Center, IL	08/81
12-14253	Powell Associates, Inc., TX	05/81
12-14255	University of Oklahoma Health Science Center, OK	05/81
12-14256	University of Texas Health Science Center, TX	06/81
12-14257	Texas Technical University, TX	06/81
12-14258	Powell Associates, Inc., TX	06/81
12-14259	University of Arkansas, AR	07/81
12-14260	Kirschner Associates, NM	09/81
12-14313	Kansas Neurological Institute, KS	04/81
12-14315	University of Kansas, KS	06/81
12-14316	University of Nebraska-Lincoln, NB	06/81
12-14355	University of Colorado, CO	04/81
12-14408	System Development Corporation, CT	05/81
12-14409	California State University Foundation, CA	06/81
12-14410	California State University Foundation-Long Beach, CA	06/81
12-14411	Palo Alto Medical Research Foundation, CA	06/81
12-14412	Stanford University, CA	07/81
12-14413	California State University, CA	08/81
12-14414	Rand Corporation, CA	08/81
12-14415	Northern Arizona University, AZ	08/81
12-14416	Del Green Association, Inc., CA	08/81
12-14417	California State University, CA	08/81
12-14418	Humboldt State University, CA	08/81
12-14419	San Francisco State University, CA	08/81
12-14420	Juarez and Associates, Inc., CA	08/81
12-14421	SRI International, CA	09/81
12-14454	University of Washington, WA	09/81

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